

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

# **Charter Township of Mount Morris Genesee County, Michigan**

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**Financial Report  
with Supplemental Information  
March 31, 2006**

# Charter Township of Mount Morris

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## Independent Auditor's Report

To the Township Board  
Charter Township of Mount Morris  
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mount Morris (the "Township") as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Mount Morris' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mount Morris as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Township Council  
Charter Township of Mount Morris  
Genesee County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Mount Morris' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

July 21, 2006

# **Charter Township of Mount Morris**

## **Management's Discussion and Analysis**

Our discussion and analysis of the Township of Mount Morris' (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- Revenue sources decreased from prior year as income from state revenue sharing and operating grants and contributions were negatively affected by reductions in spending at the state and federal level.
- To combat the continuing decrease in revenue sources, the Township closely monitored its spending this year; as a result, total expenditures increased only 1.9 percent even with large increases in pension costs and health care.
- Also in an effort to contain costs, the Township refinanced \$2.7 million in debt being serviced in the Water and Sewer Fund. The interest rates lowered from 4.95 percent - 5.70 percent to 4.00 percent - 4.25 percent over the same payoff period. This advance refunding reduces total debt service payments by approximately \$189,000 over the next 13 years and this represents an economic gain of approximately \$114,000.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Our discussion and analysis of the Township of Mount Morris' financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

# Charter Township of Mount Morris

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to prior years:

	2004	2005	2006	Change	Percent
<b>Assets</b>					
Current assets	\$ 3,830,927	\$ 3,918,739	\$ 3,940,094	\$ 21,355	0.5
Noncurrent assets	<u>3,876,963</u>	<u>3,823,081</u>	<u>3,587,192</u>	<u>(235,889)</u>	(6.2)
Total assets	7,707,890	7,741,820	7,527,286	(214,534)	(2.8)
<b>Liabilities</b>					
Current liabilities	1,013,385	866,790	606,128	(260,662)	(30.1)
Long-term liabilities	<u>739,522</u>	<u>412,129</u>	<u>538,493</u>	<u>126,364</u>	30.7
Total liabilities	<u>1,752,907</u>	<u>1,278,919</u>	<u>1,144,621</u>	<u>(134,298)</u>	(10.5)
<b>Net Assets</b>					
Invested in capital assets -					
Net of related debt	3,088,830	3,334,374	3,208,447	(125,927)	(3.8)
Restricted	394,307	316,871	355,967	39,096	12.3
Unrestricted	<u>2,471,846</u>	<u>2,811,656</u>	<u>2,818,251</u>	<u>6,595</u>	0.2
Total net assets	<u>\$ 5,954,983</u>	<u>\$ 6,462,901</u>	<u>\$ 6,382,665</u>	<u>\$ (80,236)</u>	(1.2)

# Charter Township of Mount Morris

## Management's Discussion and Analysis (Continued)

	2005	2006	Effect on Change in Net Assets	Percent
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 981,519	\$ 919,291	\$ (62,228)	(6.3)
Operating grants and contributions	266,356	121,547	(144,809)	(54.4)
General revenue:				
Property taxes	3,568,797	3,454,611	(114,186)	(3.2)
State-shared revenue	2,443,487	2,343,928	(99,559)	(4.1)
Investment earnings	21,467	54,146	32,679	152.2
Franchise fees	210,455	208,069	(2,386)	(1.1)
Other revenue (loss)	13,801	(52,382)	(66,183)	(479.6)
Total revenue	7,505,882	7,049,210	(456,672)	(6.1)
<b>Program Expenses</b>				
General government	1,752,962	1,824,897	71,935	4.1
Police and fire	4,382,320	4,526,778	144,458	3.3
Building inspection	246,245	250,679	4,434	1.8
Public services	512,308	425,492	(86,816)	(16.9)
Community assistance	2,486	14,277	11,791	474.3
Planning and zoning	16,498	15,179	(1,319)	(8.0)
Senior activities	63,386	66,404	3,018	4.8
Interest on long-term debt	21,759	5,740	(16,019)	(73.6)
Total program expenses	6,997,964	7,129,446	131,482	1.9
<b>Change in Net Assets</b>	<b>\$ 507,918</b>	<b>\$ (80,236)</b>	<b>\$ (588,154)</b>	<b>(115.8)</b>

The governmental net assets decreased 1.2 percent from a year ago - decreasing from approximately \$6,463,000 to \$6,383,000.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$6,600 for the governmental activities. This represents an increase of approximately .2 percent. The current level of unrestricted net assets for our governmental activities stands at approximately \$2,819,000, or about 40 percent of expenditures.



# Charter Township of Mount Morris

## Management's Discussion and Analysis (Continued)

Governmental activities net assets decreased by approximately \$80,200 from 2005 to 2006. This decrease was mainly due to the \$322,000 related to the noncash depreciation expense for the Township's capital assets, which lowered the amount of noncurrent assets at a greater rate than capital outlay increased the value in the current year. This was mainly due to limiting new capital outlay expenditures in the current year. The net capital asset decrease was slightly offset by the net decrease in debt caused by routine debt payments exceeding the increased debt level obtained mainly by the issuance of new debt in the current year.

### Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund and the Refuse Collection Fund. System revenues are primarily from fees paid by customers based on use. The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior years:

	2004	2005	2006	Change	Percent
<b>Assets</b>					
Current assets	\$ 7,828,170	\$ 7,327,597	\$ 7,092,924	\$ (234,673)	(3.2)
Noncurrent assets	<u>16,511,386</u>	<u>16,066,153</u>	<u>15,737,936</u>	<u>(328,217)</u>	(2.0)
Total assets	24,339,556	23,393,750	22,830,860	(562,890)	(2.4)
<b>Liabilities</b>					
Current liabilities	1,498,738	1,490,556	1,536,813	46,257	3.1
Long-term liabilities	<u>4,560,998</u>	<u>4,032,332</u>	<u>3,638,666</u>	<u>(393,666)</u>	(9.8)
Total liabilities	<u>6,059,736</u>	<u>5,522,888</u>	<u>5,175,479</u>	<u>(347,409)</u>	(6.3)
<b>Net Assets</b>					
Invested in capital assets -					
Net of related debt	11,305,548	11,505,155	11,520,604	15,449	0.1
Restricted	115,116	1,039	1,039	-	-
Unrestricted (deficit)	<u>6,859,156</u>	<u>6,364,668</u>	<u>6,133,738</u>	<u>(230,930)</u>	(3.6)
Total net assets	<u>\$ 18,279,820</u>	<u>\$ 17,870,862</u>	<u>\$ 17,655,381</u>	<u>\$ (215,481)</u>	(1.2)

# Charter Township of Mount Morris

## Management's Discussion and Analysis (Continued)

	2004	2005	2006	Effect on Change in Net Assets	Percent
<b>Revenue</b>					
Charges for services	\$ 2,966,563	\$ 2,972,359	\$ 2,953,988	\$ (18,371)	(0.6)
Operating expenses other than depreciation	(2,945,917)	(2,929,514)	(2,960,232)	(30,718)	1.0
Depreciation	<u>(320,666)</u>	<u>(330,117)</u>	<u>(328,216)</u>	<u>1,901</u>	<u>(0.6)</u>
Operating loss	(300,020)	(287,272)	(334,460)	(47,188)	16.4
Interest income	60,993	87,469	203,049	115,580	132.1
Interest expense	(311,117)	(273,565)	(228,995)	44,570	(16.3)
Capital contributions	181,490	64,410	144,925	80,515	125.0
Transfers from other funds	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>n/a</u>
<b>Change in Net Assets</b>	<b><u>\$ 431,346</u></b>	<b><u>\$ (408,958)</u></b>	<b><u>\$ (215,481)</u></b>	<b><u>\$ 193,477</u></b>	<b><u>(47.3)</u></b>

The business-type activities net assets decreased approximately 1.2 percent from a year ago - decreasing from approximately \$17,871,000 to \$17,655,000. Noncurrent assets did decrease by approximately \$328,000 due to noncash depreciation expense exceeding the amount of capital outlay in the current year. However, this net capital asset decrease was offset by routine debt payments lowering the amount of outstanding liabilities at a greater rate. In sum, total assets decreased at a greater rate than the overall liability decrease mainly due to the business-type activities having to use up cash reserves in the current year to finance the loss in both the Water and Sewer Fund and the Refuse Fund.

The unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by approximately \$231,000 for the business-type activities. This represents a decrease of approximately 3.6 percent. The current level of unrestricted net assets for our business-type activities stands at approximately \$6,134,000.

Charges for services decreased slightly by approximately \$18,000. Overall expenses decreased by about \$16,000 during the year. Decreases in expenses were led by an approximate \$45,000 decrease in interest expense related to debt of the fund. This savings was partially offset by an approximate increase of \$31,000 in operational expenses due to cost increases passed on by Genessee County.

# **Charter Township of Mount Morris**

## **Management's Discussion and Analysis (Continued)**

### **The Township's Funds**

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 include the General Fund, the Police Fund, and the Fire Fund.

The General Fund pays for most of the Township's administrative governmental services including the supervisor, treasurer, and clerk's offices. The Police and Fire Funds record the majority of the revenues and expenditures related to the Township's public safety activities. These two services are partially supported by special police and fire operation millages which provide approximately 37 percent of the operating expenses of the Police Fund and 58 percent of the operating expenses of the Fire Fund. Transfer of funds from the General Fund, grant income, fines and forfeitures, and other income provide the remaining funds to cover expenditures recorded in the Police and Fire Funds. Total operating expenditures of the Police Fund and Fire Fund in 2006 were approximately \$3.5 million and \$947,000, respectively. Combined, police and fire account for 63 percent of total governmental expenses.

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was a \$75,000 increase in cable franchise fee revenue and an increase in the transfer of funds to the Fire Fund. The General Fund departments overall stayed below budget, resulting in total revenue less expenditures being approximately \$142,000 below budget.

### **Capital Asset and Debt Administration**

At the end of 2006, the Township had approximately \$19,325,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. Investments in technology, protective equipment, and other public safety items were made throughout 2006 to improve the operations of the police and fire departments.

### **Economic Factors and Next Year's Budgets and Rates**

The Township's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the close monitoring of expenses. However, any reduction in state revenue sharing would have a negative impact on this upcoming year's income. Because of this impact and the impact of Proposal A, the Township needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation, or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

# **Charter Township of Mount Morris**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Charter Township of Mount Morris

## Statement of Net Assets March 31, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 2,631,121	\$ 5,859,506	\$ 8,490,627
Receivables:			
Taxes	795,542	-	795,542
Customer	-	854,055	854,055
Due from other governmental units	480,022	-	480,022
Other	65,816	-	65,816
Internal balances	(192,610)	192,610	-
Inventories	6,301	-	6,301
Prepaid costs and other assets	153,902	185,714	339,616
Restricted assets (Note 4)	-	1,039	1,039
Capital assets - Net (Note 5):			
Nondepreciable	200,324	-	200,324
Depreciable	3,386,868	15,737,936	19,124,804
Total assets	7,527,286	22,830,860	30,358,146
<b>Liabilities</b>			
Bank overdraft (Note 3)	39,118	-	39,118
Accounts payable	44,687	423,701	468,388
Accrued and other liabilities	87,014	3,712	90,726
Due to other governmental units	183,846	-	183,846
Deferred revenue (Note 6)	729	530,734	531,463
Noncurrent liabilities (Note 8):			
Due within one year	250,734	578,666	829,400
Due in more than one year	538,493	3,638,666	4,177,159
Total liabilities	1,144,621	5,175,479	6,320,100
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	3,208,447	11,520,604	14,729,051
Restricted:			
Housing commission	82,212	-	82,212
Building permits	39,578	-	39,578
Drug law enforcement	53,570	-	53,570
Hughes 20 debt service	5,865	-	5,865
Police	129,839	-	129,839
Fire	44,903	-	44,903
Water and sewer construction	-	1,039	1,039
Unrestricted	2,818,251	6,133,738	8,951,989
Total net assets	\$ 6,382,665	\$ 17,655,381	\$ 24,038,046

# Charter Township of Mount Morris

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,824,897	\$ 420,549	\$ -	\$ -
Police and fire	4,526,778	371,514	75,298	-
Building inspections	250,679	105,763	-	-
Public services (roads, street lights, etc.)	425,492	21,465	-	-
Community assistance (CDBG and housing)	14,277	-	46,249	-
Planning and zoning	15,179	-	-	-
Senior activities	66,404	-	-	-
Interest on long-term debt	5,740	-	-	-
Total governmental activities	7,129,446	919,291	121,547	-
Business-type activities:				
Water and sewer	2,691,379	2,157,588	-	144,925
Refuse	826,064	796,400	-	-
Total business-type activities	3,517,443	2,953,988	-	144,925
Total primary government	<u>\$ 10,646,889</u>	<u>\$ 3,873,279</u>	<u>\$ 121,547</u>	<u>\$ 144,925</u>
General revenues:				
Property taxes				
State-shared revenues				
Investment earnings				
Cable franchise fees				
Miscellaneous				
Special item - Loss on sale of capital assets				
Total general revenues and special item				
<b>Change in Net Assets</b>				
<b>Net Assets</b> - Beginning of year				
<b>Net Assets</b> - End of year				

**Statement of Activities**  
**Year Ended March 31, 2006**

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,404,348)	\$ -	\$ (1,404,348)
(4,079,966)	-	(4,079,966)
(144,916)	-	(144,916)
(404,027)	-	(404,027)
31,972	-	31,972
(15,179)	-	(15,179)
(66,404)	-	(66,404)
(5,740)	-	(5,740)
(6,088,608)	-	(6,088,608)
-	(388,866)	(388,866)
-	(29,664)	(29,664)
-	(418,530)	(418,530)
(6,088,608)	(418,530)	(6,507,138)
3,454,611	-	3,454,611
2,343,928	-	2,343,928
54,146	203,049	257,195
208,069	-	208,069
24,771	-	24,771
(77,153)	-	(77,153)
6,008,372	203,049	6,211,421
(80,236)	(215,481)	(295,717)
6,462,901	17,870,862	24,333,763
<b>\$ 6,382,665</b>	<b>\$ 17,655,381</b>	<b>\$ 24,038,046</b>

# Charter Township of Mount Morris

## Governmental Funds Balance Sheet March 31, 2006

	General Fund	Police Fund	Fire Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 2,406,767	\$ 28,691	\$ -	\$ 195,663	\$ 2,631,121
Receivables:					
Property taxes	795,542	-	-	-	795,542
Other governmental units	325,810	-	-	-	325,810
Other	-	21,630	-	44,186	65,816
Prepaid costs and other assets	124,505	-	-	29,397	153,902
Due from other funds (Note 7)	-	154,260	66,826	3,160	224,246
Inventories	6,301	-	-	-	6,301
Total assets	<u>\$ 3,658,925</u>	<u>\$ 204,581</u>	<u>\$ 66,826</u>	<u>\$ 272,406</u>	<u>\$ 4,202,738</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Bank overdrafts (Note 3)	\$ -	\$ -	\$ 13,476	\$ 25,642	\$ 39,118
Accounts payable	9,723	13,752	3,381	17,827	44,683
Accrued and other liabilities	18,161	60,261	5,066	3,526	87,014
Due to other governmental units	183,848	-	-	-	183,848
Due to other funds (Note 7)	416,856	-	-	-	416,856
Deferred revenue (Note 6)	-	729	-	44,186	44,915
Total liabilities	628,588	74,742	21,923	91,181	816,434
<b>Fund Balances</b>					
Reserved for:					
Prepaid insurance policies	124,505	-	-	1,050	125,555
Inventory	6,301	-	-	-	6,301
Unreserved, reported in:					
General Fund	2,899,531	-	-	-	2,899,531
Debt Service Fund	-	-	-	5,865	5,865
Special Revenue Funds	-	129,839	44,903	174,310	349,052
Total fund balances	<u>3,030,337</u>	<u>129,839</u>	<u>44,903</u>	<u>181,225</u>	<u>3,386,304</u>
Total liabilities and fund balances	<u>\$ 3,658,925</u>	<u>\$ 204,581</u>	<u>\$ 66,826</u>	<u>\$ 272,406</u>	<u>\$ 4,202,738</u>



# Charter Township of Mount Morris

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## **Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets March 31, 2006**

**Fund Balance - Total Governmental Funds** \$ 3,386,304

Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds 3,587,192

State of Michigan receivable not collected within 60 days of year  
end and is not available to pay for current year expenditures 154,212

Special assessment receivables are expected to be collected over  
several years and are not available to pay for current year  
expenditures 20,934

Grant receivables are not expected to be collected within 60 days  
of year end and are not available to pay for current year  
expenditures 23,250

Long-term liabilities and accrued interest are not due and payable  
in the current period and are not reported in the funds (789,227)

**Net Assets - Governmental Activities** \$ 6,382,665

# Charter Township of Mount Morris

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances

### Year Ended March 31, 2006

	General Fund	Police Fund	Fire Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 1,337,895	\$ 1,295,500	\$ 555,344	\$ 11,524	\$ 3,200,263
Licenses and permits	47,999	-	-	105,737	153,736
Federal grants	155,442	69,036	-	-	224,478
State-shared revenues and state grants	2,345,149	119,086	-	-	2,464,235
Local sources	42,558	-	19,512	-	62,070
Special assessment revenue	231,514	-	-	-	231,514
Charges for services	349,443	-	-	-	349,443
Cable franchise fees	208,069	-	-	-	208,069
Fines and forfeitures	-	117,921	-	-	117,921
Interest and rentals	77,788	-	-	4,331	82,119
Other	32,948	50,760	32,364	48,515	164,587
Total revenue	4,828,805	1,652,303	607,220	170,107	7,258,435
<b>Transfers In (Note 7)</b>	-	1,875,000	350,000	190,000	2,415,000
Total revenue and transfers in	4,828,805	3,527,303	957,220	360,107	9,673,435
<b>Expenditures</b>					
Current:					
General government	1,785,003	-	-	-	1,785,003
Police and fire	-	3,508,622	947,251	63,780	4,519,653
Building inspections	-	-	-	250,367	250,367
Public services (roads, street lights, etc.)	299,566	-	-	-	299,566
Community assistance (CDBG and housing)	14,199	-	-	653	14,852
Planning and zoning	15,179	-	-	-	15,179
Senior activities	57,944	-	-	-	57,944
Debt service	100,209	-	-	35,311	135,520
Total expenditures	2,272,100	3,508,622	947,251	350,111	7,078,084
<b>Transfers Out (Note 7)</b>	2,415,000	-	-	-	2,415,000
Total expenditures and transfers out	4,687,100	3,508,622	947,251	350,111	9,493,084
<b>Net Change in Fund Balances</b>	141,705	18,681	9,969	9,996	180,351
<b>Fund Balances - Beginning of year</b>	2,888,632	111,158	34,934	171,229	3,205,953
<b>Fund Balances - End of year</b>	<u>\$ 3,030,337</u>	<u>\$ 129,839</u>	<u>\$ 44,903</u>	<u>\$ 181,225</u>	<u>\$ 3,386,304</u>

# Charter Township of Mount Morris

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended March 31, 2006**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 180,351**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	174,107
Depreciation	(322,139)
Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in sale of capital assets	(87,858)
An agreement between the Township and another governmental unit resulted in the recognition of long-term debt which is not recorded within the governmental funds	(81,494)
Special assessment revenues are recorded in the statement of activities when the assessment is set; financial resources in the statement of activities were provided in the prior year and in the current year for the governmental funds due to not being collected within 60 days of year end during the prior year	(10,378)
Grant revenues reported in the statement of activities, when qualifying grant expenditures incurred, provided financial resources in the statement of activities in the prior year and in the current year for the governmental funds due to not being collected within 60 days of year end during the prior year	(109,193)
State-shared revenue reported in the statement of activities that provided financial resources in the statement of activities in the prior year and in the current year for the governmental funds due to not being collected within 60 days of year end during the prior year	(1,221)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	191,455
Change in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	(13,866)

**Change in Net Assets of Governmental Activities** **\$ (80,236)**

# Charter Township of Mount Morris

## Proprietary Funds Statement of Net Assets March 31, 2006

	Water and Sewer	Refuse Collection	Total
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 5,369,495	\$ 490,011	\$ 5,859,506
Customer receivables	854,055	-	854,055
Due from other funds (Note 7)	37,710	154,900	192,610
Other assets	185,714	-	185,714
Total current assets	6,446,974	644,911	7,091,885
Noncurrent assets:			
Capital assets (Note 5)	15,737,936	-	15,737,936
Restricted assets - Held at Genesee County (Note 4)	1,039	-	1,039
Total noncurrent assets	15,738,975	-	15,738,975
Total assets	22,185,949	644,911	22,830,860
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	423,701	-	423,701
Accrued and other liabilities	3,712	-	3,712
Current portion of long-term debt (Note 8)	578,666	-	578,666
Deferred revenue (Note 6)	-	530,734	530,734
Total current liabilities	1,006,079	530,734	1,536,813
Noncurrent liabilities - Long-term debt - Net of current portion (Note 8)	3,638,666	-	3,638,666
Total liabilities	4,644,745	530,734	5,175,479
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	11,520,604	-	11,520,604
Restricted for water and sewer construction projects	1,039	-	1,039
Unrestricted	6,019,561	114,177	6,133,738
Total net assets	\$ 17,541,204	\$ 114,177	\$ 17,655,381

# Charter Township of Mount Morris

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2006

	Water and Sewer	Refuse Collection	Total
<b>Operating Revenue</b>			
User charges	\$ 2,078,208	\$ 796,400	\$ 2,874,608
Interest and penalty charges	16,416	-	16,416
Other charges for services	62,964	-	62,964
	<hr/>	<hr/>	<hr/>
Total operating revenue	2,157,588	796,400	2,953,988
<b>Operating Expenses</b>			
Cost of water produced/purchased	999,671	-	999,671
Cost of sewage treatment	757,986	-	757,986
Refuse pickup contract	-	826,064	826,064
Operation and maintenance	89,078	-	89,078
Billing and administrative costs	287,433	-	287,433
Depreciation	328,216	-	328,216
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,462,384	826,064	3,288,448
<b>Operating Loss</b>	(304,796)	(29,664)	(334,460)
<b>Nonoperating Revenue (Expense)</b>			
Amortization	(14,286)	-	(14,286)
Investment income	193,058	9,991	203,049
Interest expense	(214,709)	-	(214,709)
	<hr/>	<hr/>	<hr/>
<b>Loss - Before contributions</b>	(340,733)	(19,673)	(360,406)
<b>Capital Contributions - Tap-in fees</b>	144,925	-	144,925
	<hr/>	<hr/>	<hr/>
<b>Change in Net Assets</b>	(195,808)	(19,673)	(215,481)
<b>Net Assets - Beginning of year</b>	17,737,012	133,850	17,870,862
	<hr/>	<hr/>	<hr/>
<b>Net Assets - End of year</b>	<u>\$ 17,541,204</u>	<u>\$ 114,177</u>	<u>\$ 17,655,381</u>

# Charter Township of Mount Morris

## Proprietary Funds Statement of Cash Flows Year Ended March 31, 2006

	Water and Sewer	Refuse Collection	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 2,250,393	\$ 796,400	\$ 3,046,793
Payments to suppliers	(1,760,195)	(861,763)	(2,621,958)
Payments to employees	(492,465)	-	(492,465)
Net cash used in operating activities	(2,267)	(65,363)	(67,630)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Tap-in fees	144,925	-	144,925
Capitalized bond issuance costs	(185,714)	-	(185,714)
Debt proceeds received	2,900,000	-	2,900,000
Principal and interest paid on capital debt	(3,458,375)	-	(3,458,375)
Net cash used in capital and related financing activities	(599,164)	-	(599,164)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	193,058	9,991	203,049
Amortization	(14,286)	-	(14,286)
Investment purchases	(2,001,559)	-	(2,001,559)
Net cash provided by (used in) investing activities	(1,822,787)	9,991	(1,812,796)
<b>Net Decrease in Cash and Cash Equivalents</b>	(2,424,218)	(55,372)	(2,479,590)
<b>Cash and Cash Equivalents - Beginning of year</b>	4,040,914	545,383	4,586,297
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,616,696</u>	<u>\$ 490,011</u>	<u>\$ 2,106,707</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 5,369,495	\$ 490,011	\$ 5,859,506
Restricted investments	1,039	-	1,039
Less amounts classified as investments	(3,753,838)	-	(3,753,838)
Total cash and cash equivalents	<u>\$ 1,616,696</u>	<u>\$ 490,011</u>	<u>\$ 2,106,707</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (304,796)	\$ (29,664)	\$ (334,460)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	328,216	-	328,216
Changes in assets and liabilities:			
Receivables	92,805	-	92,805
Due from other funds	10,252	(699)	9,553
Accounts payable	(2,538)	-	(2,538)
Due to other funds	(125,000)	(35,000)	(160,000)
Accrued and other liabilities	(1,206)	-	(1,206)
Net cash used in operating activities	<u>\$ (2,267)</u>	<u>\$ (65,363)</u>	<u>\$ (67,630)</u>

**Noncash Capital and Related Financing Activities** - There were no significant noncash investing, capital, or financing activities during the year ended March 31, 2006.

# Charter Township of Mount Morris

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## **Fiduciary Funds** **Statement of Fiduciary Assets and Liabilities** **March 31, 2006**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 99,492
Receivables - Other	<u>18,345</u>
Total assets	<u><u>\$ 117,837</u></u>
<b>Liabilities</b>	
Accrued and other liabilities	\$ 65,706
Due to other governmental units	<u>52,131</u>
Total liabilities	<u><u>\$ 117,837</u></u>

# **Charter Township of Mount Morris**

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## **Notes to Financial Statements March 31, 2006**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Charter Township of Mount Morris (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Mount Morris:

#### **Reporting Entity**

The Charter Township of Mount Morris is governed by an elected seven-member board of trustees. There are no component units that are required to be included in these financial statements.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township (primary government). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or segment (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.



# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest are susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Police Fund** - The Police Fund is where the Township accounts for the financial operations of the police department, including a special property tax millage, and federal and state grants that directly benefit and are solely designated for law enforcement activities.

# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fire Fund** - The Fire Fund is where the Township accounts for the financial operations of the fire department, including a special property tax millage, and federal grants that directly benefit and are solely designated for fire protection.

The Township reports the following major proprietary funds:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system. Funding is provided primarily through user charges.

**Refuse Collection Fund** - The Refuse Collection Fund is used to account for the activities related to the Township's trash collection. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund type:

**Agency Funds** - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Property Tax Revenue** - Properties are assessed as of December 31 of each year. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended March 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$388 million; the detail of the property tax levy is as follows:

Purpose	Millage	Levy
General operating	3.5400	\$ 1,375,000
Police	3.4115	1,325,000
Fire	1.4619	568,000
Total property taxes		<u>\$ 3,268,000</u>

The delinquent real property taxes of the Township are purchased by Genesee County (the "County"). In approximately April or May, the County treasurer reimburses the local unit for delinquent real property taxes through the County revolving fund. If delinquent real taxes cannot be collected by the County, the local unit portion of the tax is invoiced or deducted from the monthly County settlement.

### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General, Fire, Police, Building, Drug, Housing, Hughes 20, and Refuse Funds is generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets** - Genesee County acts on behalf of the Township to issue bonds to finance water and sewer lines. Restricted assets represent the monies held by the County that are to be spent on the Township's behalf for water and sewer line construction, or for repayment of the related bonds.

**Capital Assets** - Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 years
Infrastructure	20-75 years
Land improvements	20 years
Machinery and equipment	5-20 years
Vehicles	8 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or the employee is terminated).

# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2006

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**State Construction Code Act** - The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The activity related to construction code fees is recorded in a separate fund, the Building Permit Fund.

# **Charter Township of Mount Morris**

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## **Notes to Financial Statements March 31, 2006**

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated 10 banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 with further restrictions that indicate the Township shall diversify the investments by security type and institution. The Township's policy indicates that no more than 50 percent of the total investment portfolio will be invested in a single security type or with a single financial institution, with the exception of U.S. Treasury securities and authorized investment pools. In addition, the Township's securities purchased will have a maximum maturity of no longer than two years and not more than 50 percent of any fund may be invested in commercial paper at any time.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the Township had \$9,295,266 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$500,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy would indicate to be in compliance with State law limits. This rating must be obtained by not less than two standard rating services. As of year end, the credit quality ratings of equity and debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 4,087,798	Aaa	S&P

### Note 4 - Restricted Assets

Restricted assets at March 31, 2006 consist of cash and cash equivalents held at the County. These assets are restricted for construction of the Francis/Webster Roads.

### Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

Governmental Activities	Balance			Balance
	April 1, 2005	Additions	Disposals	March 31, 2006
Capital assets not being depreciated - Land	\$ 200,324	\$ -	\$ -	\$ 200,324
Capital assets being depreciated:				
Buildings	3,574,157	-	-	3,574,157
Infrastructure	557,980	81,494	-	639,474
Land improvements	165,690	-	-	165,690
Machinery and equipment	391,822	13,617	-	405,439
Vehicles	2,270,783	78,996	(231,277)	2,118,502
Subtotal	6,960,432	174,107	(231,277)	6,903,262

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 5 - Capital Assets (Continued)

<b>Governmental Activities</b> (Continued)	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
Accumulated depreciation:				
Buildings	\$ 1,257,830	\$ 72,028	\$ -	\$ 1,329,858
Infrastructure	414,456	22,701	-	437,157
Land improvements	96,946	7,759	-	104,705
Machinery and equipment	192,464	39,880	-	232,344
Vehicles	1,375,979	179,771	(143,420)	1,412,330
Subtotal	3,337,675	322,139	(143,420)	3,516,394
Net capital assets being depreciated	3,622,757	(148,032)	(87,857)	3,386,868
Net capital assets	\$ 3,823,081	\$ (148,032)	\$ (87,857)	\$ 3,587,192

A summary of business-type fixed assets at March 31, 2006 was as follows:

<b>Business-type Activities</b>	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
Capital assets being depreciated:				
Sanitary sewer system	\$ 17,073,017	\$ -	\$ -	\$ 17,073,017
Water utility system	6,150,039	-	-	6,150,039
Office equipment	6,168	-	-	6,168
Subtotal	23,229,224	-	-	23,229,224
Accumulated depreciation:				
Sanitary sewer system	4,536,655	227,600	-	4,764,255
Water utility system	2,620,249	100,616	-	2,720,865
Office equipment	6,168	-	-	6,168
Subtotal	7,163,072	328,216	-	7,491,288
Net capital assets	\$ 16,066,152	\$ (328,216)	\$ -	\$ 15,737,936



# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 5 - Capital Assets (Continued)

Depreciation was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 53,825
Police	63,820
Fire	170,005
Building inspection	312
Public services	25,717
Senior activities	<u>8,460</u>

Total governmental activities \$ 322,139

Business-type activities:

Water utility	\$ 100,616
Sanitary sewer	<u>227,600</u>

Total business-type activities \$ 328,216

### Note 6 - Deferred Revenue

**Statement of Net Assets** - On the statement of net assets, the deferred revenue in the governmental activities represents resources that have been received but not yet earned.

**Governmental Funds Balance Sheet** - Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Special assessments	\$ 20,934	\$ -	\$ 20,934
Crime prevention grant	-	729	729
Land contract receivable	<u>23,252</u>	<u>-</u>	<u>23,252</u>
Total	<u>\$ 44,186</u>	<u>\$ 729</u>	<u>\$ 44,915</u>

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 7 - Interfund Receivables, Payables, and Transfers

In addition, the Refuse Collection Fund reports deferred revenue of \$530,734 related to refuse fees collected in advance of the period to which the service relates.

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Police Fund	General Fund	\$ 154,260
Fire Fund	General Fund	66,826
Hughes 20 Debt Service Fund	General Fund	3,160
Sewer Fund	General Fund	37,710
Refuse Fund	General Fund	154,900
Total		<u>\$ 416,856</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Fire Fund	\$ 350,000
General Fund	Building Permits Fund	160,000
General Fund	Police Fund	1,875,000
General Fund	Hughes 20 Fund	30,000
Total		<u>\$ 2,415,000</u>

The transfers from the General Fund to the Police Fund, Fire Fund, Hughes 20 Debt Service Fund, and Building Permits Fund were to assist in paying salary expenses, debt, and other needed appropriations.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 8 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
County Contract Obligations:							
Hughes 20 Drainage District Bonds:							
Amount of issue - \$127,560	6.75%	\$25,512	\$ 102,048	\$ -	\$ (25,512)	\$ 76,536	\$ 25,512
Maturing through 2009							
Hughes 20 Drainage Township Share Bonds:							
Amount of issue - \$14,173	6.75%	\$2,835	11,338	-	(2,835)	8,503	2,835
Maturing through 2009							
General Obligations:							
Fire Truck #1 Bond:							
Amount of issue - \$386,940	5.00%	\$36,234-	276,114	-	(76,218)	199,896	78,446
Maturing through 2008		\$80,736					
Fire Truck #2 Bond:							
Amount of issue - \$140,000	5.00%	\$70,000	70,000	-	(70,000)	-	-
Maturing through 2006							
Special Assessment Obligation Bonds: (2)							
Project #433 Bond:							
Amount of issue - \$9,372	5.08%	\$2,343	7,029	-	(2,343)	4,686	2,344
Maturing through 2008							
Project #435 Bond:	5.08%						
Amount of issue - \$13,638		\$3,410	10,228	-	(3,410)	6,818	3,410
Maturing through 2008							
Project #436 Bond:	5.09%						
Amount of issue - \$14,938		\$2,988	11,950	-	(2,988)	8,962	2,988
Maturing through 2009							
Project #445 Bond:	6.09%						
Amount of issue - \$81,494		\$8,149	-	81,494	(8,150)	73,344	8,149
Maturing through 2015							
Other long-term obligations:							
Accumulated employee benefits (1)			289,887	13,866	-	303,753	127,050
Michigan Tax Tribunals (Note 12)			106,729	-	-	106,729	-
Total governmental activities			885,323	95,360	(191,456)	789,227	250,734

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
<b>Business-type Activities (3)</b>							
Genessee County Sanitary Sewage System Bonds:							
2005 Refunding Bonds:							
Amount of issue - \$2,900,000	4.00%	\$15,000-	\$ -	\$ 2,900,000	\$ (15,000)	\$ 2,885,000	\$ 25,000
Maturing through 2019	4.25%	\$315,000					
1999 Sewer Extension Bonds:							
Amount of issue - \$3,800,000	4.95%	\$150,000-	3,200,000	-	(2,850,000)	350,000	175,000
Maturing through 2019	5.70%	\$300,000					
#1 Mount Morris Arm Bond:							
Amount of issue - \$825,000	5.00%	\$275,000	550,000	-	(275,000)	275,000	275,000
Maturing through 2007							
#2 Southeast Extension Bond:							
Amount of issue - \$14,664	4.00%	\$3,666	10,998	-	(3,666)	7,332	3,666
Maturing through 2008	4.45%						
Genessee County Sewage Disposal System Bonds -							
1996 Sewage Disposal Bonds:							
Amount of issue - \$900,000	0.05%	\$100,000-					
Maturing through 2012		\$150,000	800,000	-	(100,000)	700,000	100,000
Total business-type activities			4,560,998	2,900,000	(3,243,666)	4,217,332	578,666
Total business-type and governmental activities			\$ 5,446,321	\$ 2,995,360	\$ (3,435,122)	\$ 5,006,559	\$ 829,400

- (1) Accumulated employee benefits represent the estimated liability to be paid to governmental fund-type employees under the Township's sick and vacation pay policy. Under the Township's policy, employees earn sick and vacation time based on time of service with the Township.
- (2) The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of improvements. At March 31, 2006, the Township has approximately \$21,000 of special assessments receivable in the Hughes 20 Special Assessment Debt Service Fund for repayment of these bonds. These special assessments receivable are due in the future; the amount of receivables delinquent at March 31, 2006 is not significant. Under Michigan law, the Township is secondarily liable for payment of these bonds.
- (3) The Township has pledged its full faith and credit as collateral for the water and sewer county contract obligations.

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 123,684	\$ 6,454	\$ 130,138	\$ 578,666	\$ 322,825	\$ 774,400
2008	125,974	3,051	129,025	303,666	299,759	762,256
2009	80,193	630	80,823	310,000	141,720	465,036
2010	8,149	-	8,149	345,000	128,320	472,562
2011	8,149	-	-	355,000	113,270	482,462
2012-2016	32,596	-	-	1,425,000	357,500	1,986,938
2017-2021	-	-	-	900,000	77,190	1,289,776
Total	\$ 378,745	\$ 10,135	\$ 348,135	\$ 4,217,332	\$ 1,440,584	\$ 6,233,430

# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2006

### Note 8 - Long-term Debt (Continued)

**Defeased Debt** - During the current year, the Township issued \$2,900,000 in 2005 Refunding Bonds with an interest rate ranging from 4.00 percent to 4.25 percent. A total of \$2,700,000 of the proceeds of these bonds was used to advance refund a portion of the 1999 Sewer Extension Bonds with an interest rate of 4.95 percent to 5.70 percent. As a result, \$2,700,000 of the bonds is considered to be defeased and the liability for the bonds has been removed from the business-type activities debt in the statement of net assets as of March 31, 2006. This advance refunding reduces total debt service payments over the next 13 years by approximately \$189,000, which represents an economic gain of approximately \$114,000.

### Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool program for claims relating to workers' compensation, and in the Michigan Townships Participating Plan for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2006

### **Note 10 - Defined Benefit Pension Plan**

#### **Plan Description**

The Township participates in the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

#### **Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires no contribution from the employees.

#### **Annual Pension Cost**

For the year ended March 31, 2006, the Township's annual pension cost of \$608,638 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004 and 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 6.82 percent investment rate of return, (b) projected salary increases of 4.50 percent per year, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) postretirement benefit increases of 2.50 percent annually. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The unfunded actuarial liability is being amortized as a level of percentage of payroll over a period of 30 years.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2006

### Note 10 - Defined Benefit Pension Plan (Continued)

#### Three-year Trend Information

	Fiscal Year Ended March 31		
	2004	2005	2006
Annual pension costs (APC)	\$ 411,400	\$ 505,820	\$ 608,638
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 10,111,686	\$ 10,779,206	\$ 11,438,725
Actuarial accrued liability (AAL)	\$ 13,196,788	\$ 14,859,961	\$ 15,968,305
Unfunded AAL (UAAL)	\$ 3,085,102	\$ 4,080,755	\$ 4,529,580
Funded ratio	77%	73%	72%
Covered payroll	\$ 2,757,073	\$ 2,968,677	\$ 2,959,666
UAAL as a percent of covered payroll	112%	137%	153%

### Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Township pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Township's group rates. Currently, 25 retirees are eligible for postemployment health benefits. For the fiscal year ended March 31, 2006, the Township made payments for postemployment health benefit premiums of \$230,799. The Township obtains health care coverage through private insurers.

#### Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

# **Charter Township of Mount Morris**

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## **Notes to Financial Statements March 31, 2006**

### **Note 12 - Personal Property Tax Multipliers**

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2004, the tax tables were again upheld on appeal. The amounts paid to the Township in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds of \$106,729 in the governmental funds. Of this refund, \$29,229 would come from the General Fund, \$28,702 from the Police Fund, \$5,742 from the Fire Fund, and \$43,056 from the General Debt Service Fund or Water and Sewer Fund. The potential refund related to the governmental funds has been disclosed in the long-term debt footnote as a long-term liability within the governmental activities.



## **Required Supplemental Information**

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# Charter Township of Mount Morris

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 1,335,000	\$ 1,335,000	\$ 1,337,895	\$ 2,895
Licenses and permits	35,100	35,100	47,999	12,899
Federal grants	160,000	160,000	155,442	(4,558)
State-shared revenues and grants	2,185,000	2,185,000	2,345,149	160,149
Local sources	30,000	30,000	42,558	12,558
Special assessment revenue	244,000	244,000	231,514	(12,486)
Charges for services	360,000	360,000	349,443	(10,557)
Cable franchise fees	200,000	200,000	208,069	8,069
Interest and rentals	32,000	32,000	77,788	45,788
Other	46,000	46,000	32,948	(13,052)
Total revenues	4,627,100	4,627,100	4,828,805	201,705
<b>Expenditures</b>				
Current:				
General government	1,860,400	1,900,400	1,785,003	115,397
Public services (roads, street lights, etc.)	367,000	366,700	299,566	67,134
Community assistance (CDBG and housing)	20,000	20,000	14,199	5,801
Planning and zoning	15,700	15,700	15,179	521
Senior activities	60,000	60,000	57,944	2,056
Debt service	100,000	100,300	100,209	91
Transfers to other funds	2,204,000	2,334,000	2,415,000	(81,000)
Total expenditures	4,627,100	4,797,100	4,687,100	110,000
<b>Surplus (Shortfall)</b>	<b>\$ -</b>	<b>\$ (170,000)</b>	<b>\$ 141,705</b>	<b>\$ 311,705</b>

# Charter Township of Mount Morris

## Required Supplemental Information Budgetary Comparison Schedule Police Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 1,285,000	\$ 1,285,000	\$ 1,295,500	\$ 10,500
Federal grants	37,000	37,000	69,036	32,036
State grants	110,000	110,000	119,086	9,086
Fines and forfeitures	131,000	131,000	117,921	(13,079)
Other	21,500	21,500	50,760	29,260
Transfer from other funds	<u>1,914,000</u>	<u>1,914,000</u>	<u>1,875,000</u>	<u>(39,000)</u>
Total revenues	3,498,500	3,498,500	3,527,303	28,803
<b>Expenditures</b> - Current - Public safety	<u>3,498,500</u>	<u>3,498,500</u>	<u>3,508,622</u>	<u>(10,122)</u>
<b>Surplus</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,681</u>	<u>\$ 18,681</u>

# Charter Township of Mount Morris

## Required Supplemental Information Budgetary Comparison Schedule Fire Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 562,000	\$ 562,000	\$ 555,344	\$ (6,656)
Local sources	25,000	25,000	19,512	(5,488)
Other	119,300	119,300	32,364	(86,936)
Transfer from other funds	<u>140,000</u>	<u>200,000</u>	<u>350,000</u>	<u>150,000</u>
Total revenues	846,300	906,300	957,220	50,920
<b>Expenditures</b> - Current - Public safety	<u>846,300</u>	<u>906,300</u>	<u>947,251</u>	<u>(40,951)</u>
<b>Surplus</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,969</u>	<u>\$ 9,969</u>

# Charter Township of Mount Morris

## Note to Required Supplemental Information March 31, 2006

### Note - Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The annual budget is prepared by the Township supervisor and adopted by the Township board. During the year, the budget was amended in a legally permissible manner.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The budget process is initiated in December. At that time, departments are given prior and current year budget information to review. The budget form includes areas for potential budget suggestions. Once each department completes the forms, they are resubmitted to the Township supervisor to review with each department head. The budget is submitted to the Township board in February by the Township supervisor. After a public hearing, the final budget is adopted by a Township board resolution no later than March 31.
2. The legislative budget is adopted by department and fund on an activity basis. Line item detail is provided as a general guideline. Throughout the year, the board receives requests to amend the activity budget. All amendments must be approved by a vote of the Township board.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Charter Township of Mount Morris incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Transfers to other funds	\$ 2,334,000	\$ 2,415,000
Fire Fund - Public safety	906,300	947,251

Expenditures for General Fund transfers to other funds exceeded budget due to operational expenditures in the fire fund exceeding expectations. Expenditures for the Fire Fund public safety exceeded budget due to unexpected repairs and maintenance costs, the addition of a new employee, and the purchase of necessary supplies and equipment.

## **Other Supplemental Information**

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# Charter Township of Mount Morris

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2006

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Housing Commission	Building Permits	Drug Law Enforcement	Hughes 20 Debt Service	
<b>Assets</b>					
Cash and investments	\$ 81,162	\$ 43,104	\$ 71,397	\$ -	\$ 195,663
Receivables - Net	23,252	-	-	20,934	44,186
Prepaid costs and other assets	1,050	-	-	28,347	29,397
Due from other funds	-	-	-	3,160	3,160
Total assets	<u>\$ 105,464</u>	<u>\$ 43,104</u>	<u>\$ 71,397</u>	<u>\$ 52,441</u>	<u>\$ 272,406</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Bank overdraft	\$ -	\$ -	\$ -	\$ 25,642	\$ 25,642
Accounts payable	-	-	17,827	-	17,827
Accrued and other liabilities	-	3,526	-	-	3,526
Deferred revenue	23,252	-	-	20,934	44,186
Total liabilities	23,252	3,526	17,827	46,576	91,181
<b>Fund Balances</b>					
Reserved for prepaid insurance policies	1,050	-	-	-	1,050
Unreserved	81,162	39,578	53,570	5,865	180,175
Total fund balances	82,212	39,578	53,570	5,865	181,225
Total liabilities and fund balances	<u>\$ 105,464</u>	<u>\$ 43,104</u>	<u>\$ 71,397</u>	<u>\$ 52,441</u>	<u>\$ 272,406</u>

# Charter Township of Mount Morris

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2006

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Housing Commission	Building Permits	Drug Law Enforcement	Hughes 20 Debt Service	
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ -	\$ 11,524	\$ 11,524
Interest income	4,331	-	-	-	4,331
Licenses and permits	-	105,737	-	-	105,737
Other	10,704	26	38,133	(348)	48,515
Total revenue	15,035	105,763	38,133	11,176	170,107
<b>Expenditures</b>					
Current:					
Public safety department	-	-	63,780	-	63,780
Public works department	653	250,367	-	-	251,020
Debt service	-	-	-	35,311	35,311
Total expenditures	653	250,367	63,780	35,311	350,111
<b>Excess of Revenue Over (Under) Expenditures</b>	14,382	(144,604)	(25,647)	(24,135)	(180,004)
<b>Other Financing Sources - Transfers in</b>	-	160,000	-	30,000	190,000
<b>Net Change in Fund Balances</b>	14,382	15,396	(25,647)	5,865	9,996
<b>Fund Balances - Beginning of year</b>	67,830	24,182	79,217	-	171,229
<b>Fund Balances - End of year</b>	<u>\$ 82,212</u>	<u>\$ 39,578</u>	<u>\$ 53,570</u>	<u>\$ 5,865</u>	<u>\$ 181,225</u>



# Charter Township of Mount Morris

## Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds March 31, 2006

	Tax Collection Fund	Trust and Agency Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 99,492	\$ 99,492
Receivables	<u>18,345</u>	<u>-</u>	<u>18,345</u>
Total assets	<u><b>\$ 18,345</b></u>	<u><b>\$ 99,492</b></u>	<u><b>\$ 117,837</b></u>
<b>Liabilities</b>			
Accrued and other liabilities	\$ 1,919	\$ 63,787	\$ 65,706
Due to other governmental units	<u>16,426</u>	<u>35,705</u>	<u>52,131</u>
Total liabilities	<u><b>\$ 18,345</b></u>	<u><b>\$ 99,492</b></u>	<u><b>\$ 117,837</b></u>

July 21, 2006

To the Township Board  
Charter Township of Mt. Morris  
5447 Bicentennial Drive  
Mt. Morris, Michigan 48458

Dear Board Members:

We recently completed our audit of the basic financial statements of the Charter Township of Mt. Morris (the "Township") for the year ended March 31, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### **Financial Results**

As discussed in greater detail in the management's discussion and analysis portion of the financial report, the Township improved its financial position during the year ended March 31, 2006. The General Fund's fund balance was approximately \$3,030,000, which compares favorably to your target minimum of \$1,900,000 (computed as  $\frac{3}{4}$  of property tax revenue plus 20 percent of expenditures). However, when all governmental funds are considered in total, the total fund balance of approximately \$3,386,000 falls a little short of the target minimum of \$3,800,000 (using the same formula).

As the Township board continues to monitor the Township's finances, we believe it would be helpful to keep the following financial considerations in mind:

1. The statutory portion of state-shared revenue is scheduled to sunset at September 30, 2007. It is important to local units that the State continue this critical funding source (which amounted to \$715,000 for Mt. Morris Township last year). We would encourage you to communicate the importance of this to your state legislators.
2. The pension contribution continues to increase, as a percentage of payroll. This is caused by both poor investment returns from 2001-2004, and from changing demographics (people living longer, etc).
3. Health care costs, which you did an excellent job of containing during the current year (only a 5 percent increase), continue to rise significantly in the overall market.
4. For the Township's fiscal year beginning April 1, 2009, new accounting rules will require an actuarial valuation to determine the annual contribution that would be necessary to fund retiree health care costs over a 30-year period. While the accounting rules do not (cannot) require you to make any annual contributions to pre-fund this obligation, the actuarial valuation will be a significantly large number, and will cause the board to have to debate the merits of funding some or all of the recommended contribution.

### **Condition of Accounting Records and Controls**

We would like to commend the Township for improving the interfund reconciliation process during the year ended March 31, 2006, which allowed the Township to remove this procedure from being a significant deficiency within the operations of the Township's internal control structure and is no longer required to be reported as a reportable condition within the Township. This additional improved process, added to prior years' improved processes for water and sewer reconciliations, payroll documentation and authorization, credit card usage, cash disbursements, bank reconciliations, implementation of GASB No. 34, quarterly budget to actual financial reports being distributed to the board, establishing and adhering to ACH policies, approving the bid approval process, and interfacing department software with the general ledger system to create efficiencies, has served to further strengthen the Township's internal control structure.

### **Internal Control Considerations**

During the course of our audit, we noted the following items that we believe are worth giving further consideration to:

- During our review of the accounts payable system, it was noted again in the current year that the vendor listing has not been updated to eliminate duplicate vendors and vendors that should no longer be used. The Township is currently working with the software vendor to attempt to achieve this clean up procedure. This enhanced procedure will serve to ensure every vendor has only one vendor number and each vendor is an authorized vendor.
- The Township should continue to consider separating duties between the individual that collects cash in the treasurer's office from the individual that balances the drawer at the end of each day. Since there are two cashiers, perhaps each could use a separate drawer, and then each one could perform the balancing procedure for the other person's cash drawer. This separation of duty will serve to enhance internal controls over the cash receipts system.
- It was noted that blank checks are kept in the computer room, which is not locked during the day and is accessible to all of the Township staff. The Township should strongly consider moving these checks to be kept in either a safe or locked drawer. This encourages better financial control and help to prevent an opportunity for the misappropriation of assets.

- As noted in the prior year, we continue to encourage the Township to continue to enhance its internal controls over their bank reconciliation and cash disbursement systems by ensuring that bank reconciliations are dated and initialed by the reviewer of the bank reconciliations. In addition, the Township could further improve its cash disbursement process by consistent indication on the invoices of administrative approval for payment. While we do understand that the Township board approves all payments, strong internal controls require that personnel most familiar with the service provided review and approve such invoices for payments. The individual responsible for approving disbursements, typically a department head or other authorized individual with knowledge of the Township's activities, should document approval for payment on the invoices prior to the disbursement occurring. The individual responsible for making the payments should not process invoices that have not been administratively approved for payment.

### **Investment Policy**

The Governmental Accounting Standards Board (GASB) passed a new pronouncement, GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for all fiscal years ending after June 30, 2005, which addresses different risks associated with deposits and investments. These risk types include custodial credit risk, interest rate risk, credit risk, concentrations of credit risk, and foreign currency risk. The Township may want to consider updating their investment policy to specifically address these risks. In addition, the investment policy originally adopted by the board was fully intended to be in accordance with Public Act 196. However, subsequent to the adoption of the Township's investment policy, Public Act 196 was amended to include only commercial paper in the top two ratings versus the top three ratings. The Township does not currently hold any commercial paper nor did it hold any commercial paper during the year. The Township should consider updating their policy to be in compliance with the updated public act regarding commercial paper.

We would like to thank you and your staff for the courtesy and cooperation extended to us during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Joseph C. Heffernan



Kathryn J. Kercorian